

DEPARTMENT OF DEFENSE BLOGGERS ROUNDTABLE WITH
PAUL BRINKLEY, DEPUTY UNDERSECRETARY OF DEFENSE FOR BUSINESS
TRANSFORMATION
(VIA TELECONFERENCE)

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MR. KILBRIDE: Before Mr. Brinkley gets started, I did want to welcome
everyone to the Department of Defense Bloggers Roundtable for Friday, May 18th, 2007.
My name's Tim Kilbride; I'm a new media producer with the Office of the Secretary of
Defense Public Affairs. I'll be moderating today's call.

And we're honored to have as our guest Deputy Undersecretary of Defense for Business Transformation Paul Brinkley.

MR. BRINKLEY: Hi. This is Paul Brinkley. I'm here now.

MR. KILBRIDE: All right, sir. If you'd like to go ahead with any opening statement you might have, we can move on to question-and-answer after that.

MR. BRINKLEY: Sure. I'll be brief because I want to make sure we give time for everybody to ask questions and I know some of what we're doing has already been covered.

Since May of 2006, we've had a(n) effort under way to improve our contracting practices in Iraq to make it easier for Iraqi businesses to win U.S. government contracts. Beginning in November of last year, that effort evolved into a broader undertaking involving the revitalization of a significant base of industrial operations throughout Iraq. In 2003, following the fall of the regime here, some strategic decisions were taken regarding how to handle the industry base here in Iraq. And that resulted in essentially a shutdown of a sizeable number of major industrial operations around the country. Just under 200 factories were closed. Those factories employed approximately half a million Iraqi workers.

The intent was that those factories would be privatized -- would be sold to the private sector and that a free market would emerge quickly. That hasn't happened for a variety of reasons. And so beginning last fall, we placed a team of seasoned business executives, folks who have privatized state-run industry in the Asia-Pacific region, and we began visiting these operations around the country and working to restart them and put Iraqis back to work.

We're doing this through three primary methods. The first is, where appropriate and these factories can make goods that meet the requirements of military planners and to support our forces, we're contracting for goods directly from these factories in an effort to get them restarted. The second approach we're taking, which we're seeing also bear a significant amount of outcome already, is to reconnect the commercial links that existed around Iraq. If you think about the period from 1991 through 2003, when they were under U.N. sanctions, the Iraqi economy was extremely restricted in terms of what it could import; only what it could smuggle in, essentially, was what was coming in, outside of food. And so they did have, apparently, provisions under the oil-for-food program that enabled them to create and invest in industrial equipment to manufacture goods within the Iraqi economy.

And so when you look around the country, what you find is just a variety of factories making everything from construction material, light and heavy industry, including, you know, buses, automotive, tractors, agriculture equipment, fertilizers, food processing -- essentially anything an economy can consume, with the exception of high-

tech goods. And a surprising number of these factories are in good condition. Even -- even factories in areas where there's been great unrest since 2003, you can find factory operations that have been untouched -- haven't been looted, are in good shape, have modern equipment, and a workforce that remains at home, earning a fraction of their original pay, waiting to return to work.

So we believe, by restoring these factory operations, which we now have under way -- we're turning on factories now in Iraq almost weekly now -- we can uplift Iraqi livelihoods and restore intra-Iraqi commercial linkages. And each of these factories used to sell within Iraq. They couldn't export, under U.N. sanctions. And so Sunni sold to Shi'a, Shi'a sold to Sunni, Sunni and Shi'a sold to Kurd. It was part of the fabric that held the society together. And in the absence of those commercial links -- I'd ask you to consider the United States in the absence of commercial ties, you know, among states; how long would we hold together as a union if we didn't have commercial interplay between -- between businessmen? And such is the case here in Iraq. So the second approach we're taking is to try to restore those commercial linkages within Iraq.

And then, finally, we've been bringing, since December, large groups of international business executives -- predominantly American, but an increasing number of executives from the region and from Europe -- putting a blanket of protection around them to assure them that they'll be kept safe, and taking them all over Iraq and introducing them -- showing them Iraqi factories, introducing them to Iraqi businessmen. And the appeal I make to them is really simple: If you're buying a good in the global market today and you come to Iraq and you see a factory that's making a good that you're currently consuming from other international sources, I'm asking you to consider buying from Iraqi factories.

And we've been -- I'll be honest with you -- humbled by the response. We have contracts in negotiation now with major American and international firms to transfer work into Iraq to take advantage of industrial capacity in areas of the country where there's relative stability. We have supply agreements being negotiated for acquisition of goods made in Iraq, everything from construction material to clothing to textiles to leather goods to, you know, machined parts. And so, again, the effort here is to provide Iraqi businessmen with a connection to the global economy, and offer them a path to prosperity and an opportunity to kind of leverage what remains, in my opinion, probably the most highly skilled workforce in the Middle East.

So where we are today is we've restarted several operations here in Iraq. We are working with the Iraqi government in close concert. They are funding this effort, spending the small amounts of money necessary to buy spare parts, to revitalize equipment, to establish or reestablish electrical power, in some cases, to retrain the workforce to enable us to get these factories up and running again; and, in partnership with the Iraq government, putting them on a transitional path to privatization very similar to the model that we've seen effectively used in the Asia-Pacific region in countries like China. And so that's the effort we have under way.

And so, as an overview, I think I'll stop there and just open up to questions. I'll answer anything you guys have to ask me today.

MR. KILBRIDE: Great. Thank you, sir. We can get started with the Q&A. I'd just ask everyone to state your name and blogger organization as you ask your question.

And I'll begin with Steve Schippert.

Q Thanks for allowing me to go to the front of the line, guys. I sure appreciate it; my time's kind of constrained.

Mr. Brinkley, I have two questions for you, and I'll fire them off and then I'll sit back and listen to your response, if any.

First, the State Department had tapped the CIA to do some sort of a study on the linkages between unemployment and participation in the insurgency. And while I've not seen the report, I did -- I believe it was The Washington Post who said that the CIA report had said that most of the insurgents that they had interviewed claimed to be employed, without stating who their employer was, and I imagine it would be left to us to assume who an insurgent's employer might be. I'm curious if you could describe your view of any relationship between Iraqi unemployment levels and levels of participation in the insurgency, and any steps your office might be taking to mitigate this.

MR. BRINKLEY: Sure. Let me make sure I understand the question -- so mitigating risk of somebody who is employed also being an insurgent?

Q Whether -- essentially whether an Iraqi's unemployment increases their risk of their participating in the insurgency.

MR. BRINKLEY: Okay, sure. There is a -- and again, the reason we were drawn into this in the first place last summer, Lieutenant General Pete Chiarelli, the former commanding general for Multinational Corps-Iraq, responsible for all the operational activity here in Iraq, solicited or asked us to go and tour some of the idle factories here. He had specific cases where employees of former factories here in Iraq that had been shut down, had been out of work, and were getting paid two or three hundred dollars to set IEDs on the side of the road, attacking our troops. That was the initial motivator for us.

I'll be honest; I never saw -- and I learned of this CIA study -- I still haven't seen it, either -- that was referenced in the Post article recently. But I would just ask each of us to kind of step out and let's think logically about this, okay? Probably the worst time we ever had in the United States of America was the Great Depression. And the Great Depression was a time of great social unrest, there was violence in areas around the country. And the peak unemployment rate in the United States during the Great Depression, I think, was in 1933, and it peaked at around 25 percent. The Iraqi economy today, the workforce in Iraq, is experiencing an unemployment rate -- an effective unemployment rate in excess of 50 percent. I don't know of any population in the world,

including Virginia or anyplace else, wherever you guys are, where if you impose 50 percent unemployment there aren't going to be militia roaming the street and people blowing things up. I just accept, and I think most rational people accept, that economic distress creates sympathy for violent activity, for unrest, for social unrest, and that economic prosperity is a countermeasure against social unrest and violence.

I'd like to think that we're at a point where that's just a universally held belief. If it isn't, then I think we have to step back and question a whole series of assumptions. And not to beat this too much harder, but I would ask you -- I've done a lot of reading about, you know, the post-World War II era in Europe and the Marshall Plan and the recognition that, in the absence of reindustrialization and reemployment of the people of Europe after World War II, that we would have -- we'd be fighting a war there again. And that's what happened to Weimar Germany: the economic distress that took place there after World War I led to the rise of a dictatorship.

These are fundamental precepts that -- I have to be honest, I've been surprised at some of the debates about violence -- "It doesn't matter if these people have jobs or not; they're fundamentally violent." I reject that categorization. This is a human population that is suffering economic distress. And if you alleviate the suffering, I believe the job our forces have and the Iraqi defense forces have gets much easier. Will there still be zealots and, you know, will there still be hard-core, violent resources here in this country? Absolutely. But if you take away the portion that is simply frustrated and fed up after four years and seeking any income, then I think the job of our forces and the ability to stabilize this country gets much, much easier. And I'd like to think that could be just a base understanding we'd all logically have without having to go do, you know, regression analyses or special studies to try to confirm or debunk that basic logic.

Q Right. One more question, and I'll try to -- try to make it quick, hoping for a quick answer. I don't want to monopolize the time.

We essentially attempted to go from a strictly state-run economy to a completely free market system at the snap of a finger when we -- when we got in there, under Mr. Bremer. My question is, it doesn't seem that that's really very possible, considering who the wealthy investors in Iraq might be immediately after two decades of Saddam Hussein's dictatorship. It would be the powerful in his regime that would primarily be the investors, and I don't know that this is the wisest thing. Could you shed any light on whether or not gradually transitioning to a free market economy might broaden the scope of investment?

MR. BRINKLEY: Yeah. I'll go direct at that. I think, and I'll probably sound slightly schizophrenic here, but I am inclined to offer a defense of the decisions in 2003 in that I think the lessons that were being applied in 2003 were the justified lessons learned in Eastern Europe at the fall of the Iron Curtain. The countries that were extremely aggressive with their state-owned industries -- Poland, Czech Republic -- some of those countries were the ones that emerged the fastest after the fall of the Iron Curtain

and grew the fastest and established vibrant free markets the fastest. And I think that was the lesson that many of the people who worked in Iraq tried to apply here.

Now, absent in that equation was, you know, there's a European Union sitting right next to those Eastern European countries that was ready to pour investment in, and the circumstances were obviously different, and the violence that took place here made it unreasonable to expect just a free market to quickly emerge on its own here.

You know, the other model, I think, and the one that I'm most familiar with and the people on my team are most familiar with, is the Asia-Pacific model, which is more transitional, kind of what China has done; to take state-owned industries, to not displace the workforce and create social unrest, but to privatize transitionally, reducing the workforce over a longer period of time, putting in place profit and loss.

And again, I just think this is a situational discussion as opposed to a right-or-wrong, and then a willingness to adapt to different circumstances. I do believe that now, when I bring international businessmen here and I show them a working factory making products with customers, with a skilled workforce, then you can have a real discussion about joint ventures and investment, whereas I don't know any investor in the world who's interested in buying a(n) empty building full of machinery in an area like Iraq. I mean, that's not a very appealing proposition. And so I do believe transitioning here is a more effective approach, and we're seeing that in the responses of businessmen we bring here.

Q Thank you for your time, sir, and thank you for the courtesy of the others in here. Appreciate it.

MR. BRINKLEY: Oh, it's my pleasure.

MR. KILBRIDE: Thank you, sir.

Let's move on to Mark Finkelstein.

Q Yes, it's Mark Finkelstein from NewsBusters.

Secretary, thank you very much for being with us today. I think your point about, you know, the lack of economic opportunity is very important and, by extension, your work is therefore very important.

I want to ask about the mixed blessing of an oil-based economy. You know, when we look around the Middle East, we see many countries that, in terms of per capita income, are very wealthy, and some of that oil wealth is shared with average citizens. But by the same token, these countries have failed to develop into democracies, and I think at least part of the answer is that people have become so dependent on that oil wealth. And obviously, you -- the very nature of what you are working on is an attempt to diversify the Iraqi economy. But given that oil production levels are already up to

prewar levels, there's a short-term goal of 3 million barrels per day and a longer-term goal of 6 million barrels per day, how -- to what extent can we really hope that there will ultimately be a diversified Iraqi economy in which the non-oil sector plays a significant role and involves the life of people not only for internal needs, but, as you've touched on, for competition in the global market?

MR. BRINKLEY: I think we are at a(n) extremely critical point here, and I've had many discussions with the Iraqi ministries and the leadership here on this point. I believe the upcoming passage of the hydrocarbon law and the associated revenue-sharing laws that are still being negotiated in the Iraqi parliament are absolutely critical because of the massive amount of foreign investment that's going to take place here to develop that oil sector to achieve the output that you described -- you know, up to 6 million barrels a day.

What's critical in that is that this country already had a diversified economy. Because of U.N. sanctions, the irony is they created an industrial capacity here and a skilled workforce here that is extremely frustrated because it's been idled for four years. And so to me, the trick, and what we're discussing, is as oil companies come in -- you know, there's two models, with the international oil companies. There's the model that is we build the walled compound around our oil -- you know, our drilling activity and our refining activity, we import the workers, we import the equipment. The profit then accrues to the government, but the work -- the population of the country doesn't benefit. That's a model. That model in Iraq would be a terrible mistake.

The model that we should see take place here is the oil companies, as they come in, must be encouraged in a competitive way to consume goods manufactured in Iraq. There are heavy industry factories here that are absolutely in as good a shape as factories I've seen in the West and in the Asia-Pacific region that make pressure vessels, that make refining equipment, that make, you know, pipeline equipment. There are -- there's agriculture here that will feed the workforce that will come into this country to help modernize the oil sector. So what's critical is, just like we do in the United States when, you know, Japanese auto companies build auto factories and they're subsidized with all kinds of tax breaks and things; all over the South they're popping up -- just -- not in favor of subsidization, but to encourage a competitive policy here that requires the oil companies not to strictly import all of their labor and all of their goods, but to consume within Iraq the industrial capacity that already exists here and, in doing that, maintain what already is an industrial base that, again, we're in the process of restarting. If that happens, then this country can become something unique in the Middle East -- a diversified economy with a skilled workforce, a professional middle class, an educated middle class that serves as an example to the rest of the region for how to avoid what you described, sort of that curse of the oil-based economy, where great wealth accrues to a central government that essentially uses that wealth to pacify a population, not to stimulate kind of the growth -- the intellectual and human growth of that population. And I hope that -- I believe that's what we'll see here, and I hope that's what we see here. But to me, this next six to 12 months is really critical, as those decisions are taken and as those first contracts for petroleum development take hold here in this country.

Q Okay, thank you. And by the way, I found your point about the irony of the embargo forcing Iraq to develop a diversified internal economy to be very interesting and something that I hadn't heard before.

MR. BRINKLEY: Well, thank you, sir. I appreciate your time.

Q Yes. This is Charlie Quidnunc at the Whizbang podcast. I'd like to ask a question.

I'd love to be able to stop by a Wal-Mart and buy an Iraqi soccer ball, and we hear a lot of conversations from what I call the Lou Dobbs Democrats, and even the Duncan Hunter Republicans, that the Chinese have been robbing the U.S. of factory jobs. Is there some way we can capitalize on these kinds of protectionist attitudes and lure the Americans to buy from Iraq? Is that something we can possibly look forward to?

MR. BRINKLEY: Yeah, I don't want to -- I don't want to -- you know, I won't lead with my chin here, but I can say with certainty that you will see Iraqi goods in American retail outlets by this fall; that we have leather goods -- probably not soccer balls, but leather jackets, other items -- as well as clothing -- clothing -- suits, shirts made in very Western-standard clothing factories, one of which was just broadcast on NBC News the other night. General Petraeus and I went down to Najaf. One of the factories we've restarted here, we put 1,800 people back to work in Najaf, which is a very important city here in Iraq, the holiest city of Shi'a Islam. And 1,800 people, 70 percent of them women, including engineers, and a skilled workforce. Fully automated fabric design and cutting equipment, a sea of sewing work stations, making really nice Italian-style suits for men. And in, you know, that case, I can say with certainty, sir, you will see not just the goods in the retail outlets, but you'll see a campaign this fall to buy Iraqi, just as you indicated. And I'm confident Americans will respond positively to that campaign.

Q Excellent.

Q Mr. Secretary, this is Andrew Lubin from ON Point. One or two questions.

Going back to your using the Asian market as -- as a guide, and I've spent a lot of time in Xiaomin in the past 15 years. Most Chinese industries are kind of -- you know, the state-owned industries, they're losing their proverbial asses. They're supported by the government, yet they've turned into make-work type of operations to keep people happy. With the security situation in Iraq the way it is, how are things exported competitively?

(Cross talk.)

MR. BRINKLEY: Well, I think -- okay, so --

Q It's competing with, you know, using their Wal-Mart model -- you know, a couple of skivvy shirts in Wal-Mart for a dollar. It's got to cost \$3 to get these things out through -- (inaudible) -- ship, with the --

MR. BRINKLEY: Sure. No, and I think -- we're not asking them -- I mean, Wal-Mart's not going to do anything charitable here. So the goods that Wal-Mart --

Q No, no, I don't mean to pick on them. It was just an excuse -- you know, it was just a quick example.

MR. BRINKLEY: No, no. I think the goods that will ship from Iraq are not low-end, are not low-end goods, first of all. Second of all, they are price-competitive. Where they will be exported, they will be priced competitive or else they won't achieve export. In fact, based on the negotiations already underway, again, I'm confident that the price points have been met.

I've been to Xiaomin myself a few times. I'm trying to think of state-owned factories there that have been privatized. My personal experience is in the tech sector in China, where I was involved in taking a publicly held, state-owned firm and privatizing it over a period of two years. I can't speak for the whole Chinese economy, but the transitional approach that I've seen myself in China has certainly been less socially disruptive there.

I also want to make a point about the factories here. When you go to a factory in Iraq, surrounding it, just as you would find anywhere in the world, are a whole bunch of small businesses -- mom and pop machine shops, you know, lunch counters -- just as you would find in any place. And as those --

Q Yes, but it's a 10-to-one ratio.

MR. BRINKLEY: Yeah. Exactly. It's no different here.

And so it's -- but when the large factories were shut down, all those small businesses were crippled. We've registered thousands of private businesses here in Iraq, and we're working on how we give them the same global access as the larger, state-owned industries have. But I kind of equate the state-owned industries here as kind of this engine that sits at the center of the economy. And it may not be a great engine, and it may not be, you know, a Ferrari, right? But it is the engine, and it's been shut down. And because it's shut down, a lot of the smaller, entrepreneurial companies that will probably form the base of growth, just like they do in the United States or any other country, are -- are hurting, because their market, their natural business sources have been removed.

I think there's going to be some of these state-run companies that don't make it. We'll restart some, we'll put some folks back to work, we'll reestablish normal life for people who've been waiting to go back to work. In a few years, two or three years, they

just won't cut it and they'll probably fail, right? But by getting them going, we reinvigorate the private sector and we reinvigorate the general economy in the region surrounding that factory.

And I also want to emphasize, you know, these factories included all the food processing operations in Iraq, and the fact that all the food processing factories are shut down has had a devastating effect on agriculture here. They included all the fertilizer factories in Iraq. The fact that there's not been fertilization of crops in four years means you can track crop yield reductions in many parts of the country that are greater than 50 percent. And so there's -- the restart of a factory and, you know, giving them a chance to take their place and compete.

And then there's all the secondary and tertiary effects you get when the factory starts up, and you've got 1,800 people getting paid their paycheck, and they go home and buy groceries and, you know, start living life again. And I think it's that effect that we're as excited about as we are just the direct employment factor. But it'll be interesting to watch, you know? Your point about China, I mean, I don't think China's perfect, by any stretch of the imagination. I've seen lots of problems there. But I feel more confident that transitioning in this situation will help remove some of the social disruption that's taken place over the past few years.

Q Oh, for sure. One more quickie question.

There used to be a huge aluminum plant, a rolling mill, in Nasiriyah. Is that open? What are the plans on --

MR. BRINKLEY: Right. It's not open yet. Nasiriyah -- in fact, we're supposed to go down there in three weeks to work the restoration plan for that plant. I have high hopes, but I have not personally seen it. I've had the team down there, and they say it's going to take some investment to get going again. So we're actually going to be working that during the month of June.

Q It has -- I have high hopes, too. It used to be my customer back in the '70s. I used to go there.

MR. BRINKLEY: (Laughs.) Well, maybe you want to come with us next month. You can come and find out if you want to be their customer again.

Q I'd love to.

You may have -- one more quick question, guys, because you guys stuck me last this time. Bahrain and Dubai already have a pretty diversified economy. You know, they got the aluminum works there, you got the financial services --

MR. BRINKLEY: Absolutely.

Q They're -- I mean, aren't they on a pretty decent roll also, as far -- as compared to, say, Saudi Arabia, whose -- everything they do is oil-based?

MR. BRINKLEY: Right. I think they're good examples. That's the kind of thing I hope we see evolve here in Iraq, absolutely.

MR. KILBRIDE: We have a very few minutes left. I wanted to ask, did David actually come on line? No?

All right, sir. Do you have any closing comments before we wrap up?

MR. BRINKLEY: No, I just thank you guys for your time today. If there's any last question anybody wants to ask, I'm at your service.

Q Tim, I need a picture of Mr. Brinkley, because I'm going to write an article for next week on the -- on the new economy in Iraq and I will lead with a -- lead with a - - if you've got a press picture you guys can send over?

MR. KILBRIDE: Okay. That's Andrew? (No audible response.) I'm sorry, that was Andrew?

Q Yeah, Andrew.

MR. KILBRIDE: Okay. I'll try and get one of those.

And if there are no other questions, I'll just thank you all for your time today. It's been a great conversation.

Q Oh, one more quickie. Mr. Secretary, are you able to tell us what stores we can look for Iraqi goods in?

MR. BRINKLEY: Ah! I am very close to being able to tell you. But they are major American retailers, and that's all I can say at this point.

Q When it's available? Can you -- can you let Tim know so he can tell us?

MR. BRINKLEY: Oh, absolutely.

Q I'd be (glad ?) to spread the word.

MR. BRINKLEY: Yeah. That'll be a -- and it'll be a -- I don't know. That'll be a good thing to see. I'm excited about it.

Q The first ones will be clothing?

MR. BRINKLEY: I'm sorry?

Q You're thinking the first ones will be clothing?

MR. BRINKLEY: Probably leather goods. They make really, really nice lambskin -- lambskin garments over here. Really nice. World class, and the prices are very good.

Q Okay.

Q Oh, yeah, because that's value added. You're not competing with Chinese stuff; then that makes sense.

MR. BRINKLEY: That's right.

MR. KILBRIDE: All right. Well, just to wrap this up, I'll let everyone know the bloggers roundtable program is going to be available on line at www.defendamerica.mil, with the audio file, print transcripts, and Mr. Brinkley's biography in the bloggers roundtable area. A related story is going to be on American Forces Press Service and posted later today on the DOD web site, DefenseLink.mil. And if there are any questions about this program, please contact DOD New Media Team at Bloggeroutreach@hq.afis.osd.mil.

And again, thank you, Mr. Brinkley, and to all the bloggers. And this wraps up today.

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